

Message Text

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SUBJECT: OPENING OF OFFICES BY FOREIGN FIRMS IN CZECHOSLOVAKIA
REF: PRAGUE 174 (NOTAL)

1. SUMMARY: THIS MESSAGE REPORTS ON THE COMMENTS OF
NATO MEMBER COUNTRY AMBASSADORS AT RECENT LUNCHEON MEETING
IN PRAGUE ON SUBJECT OF OPENING FOREIGN FIRMS' OFFICES IN
CZECHOSLOVAKIA. IN GENERAL, MOST AMBASSADORS TOOK NEGATIVE
LINE ON SUBJECT FOR VARIETY OF REASONS, NOT ALL OF WHICH WE
AGREE WITH. END SUMMARY.

2. AT NATO AMBASSADORS' LUNCH FEBRUARY 4 DISCUSSION TOOK
PLACE ON OPENING OF OFFICES IN CZECHOSLOVAKIA BY WESTERN FIRMS.
TONE OF DISCUSSION WAS GENERALLY NEGATIVE AND SKEPTICAL.
COMPLAINTS WERE MADE ABOUT RED TAPE INVOLVED, AND
ESPECIALLY ABOUT LIMITATIONS ON WHAT OFFICES COULD DO.
HOWEVER, CHARGE'S IMPRESSION WAS THAT MOST AMBASSADORS
KNEW RELATIVELY LITTLE ABOUT HOW NEW SYSTEM MIGHT FINALLY
SHAPE UP, SO THEIR NEGATIVISM SEEMED BASED AT THIS STAGE
MORE ON FEELING THAN ON FACT.

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3. UK AMBASSADOR REPORTED HIS COMMERCIAL REPRESENTATIVE

RECENTLY CALLED ON OFFICIAL AT MINISTRY FOREIGN TRADE RESPONSIBLE FOR RECEIVING APPLICATIONS FROM FOREIGN FIRMS, AND GOT RIGID AND UNHELPFUL RECEPTION. (EMBASSY OFFICERS ALSO CALLED ON MFT OFFICIAL AND HAD MUCH BETTER RECEPTION: SEE REFTEL.) UK AMBASSADOR (WHO SAID RECENT BRITISH VISITORS WERE DISAPPOINTED AT INABILITY TO SEE CZECHS THEY HAD MET WITH EASILY IN PREVIOUS YEARS) WAS GENERALLY PESSIMISTIC ABOUT SITUATION, ALTHOUGH HE SAID SOME UK FIRMS WERE INTERESTED IN APPLYING.

4. DUTCH AMBASSADOR SAID HE HAD BEEN TOLD THAT FIRMS ALREADY IN PRAGUE IN AN IRREGULAR STATUS WOULD HAVE TO REGULARIZE THAT STATUS BY MONTH'S END OF THEIR VISAS WOULD NOT BE RENEWED. (QUITE A FEW WESTERN FIRMS HAVE MANAGED TO ESTABLISH A PRESENCE IN PRAGUE OVER THE PAST FEW YEARS WITHOUT BEING "OFFICIALLY" HERE, SO GOC MAY IN FACT BE PLANNING TO CLAMP DOWN ON THEM WHILE THEY CONCENTRATE ON GETTING THE PROVEN LARGE COMPANIES OFFICIALLY INSTALLED.) GERMAN AMBASSADOR SAID GOC INSISTENCE ON ONLY ACCEPTING LARGE FIRMS TURNED THEM OFF, AND THEY FELT THE WHOLE NEW SETUP MIGHT BE A LIMITATION MORE THAN AN EXPANSION.

5. UK AMBASSADOR SAID THERE IS NO FIRM INFORMATION AVAILABLE TO HIS KNOWLEDGE ON COSTS OF OPERATING UNDER NEW SYSTEM, BUT HE BELIEVED CERTAINLY THEY WOULD NOT BE LESS THAN THEY HAD BEEN UNDER OLD SYSTEM OF OPERATING ENTIRELY UNDER CZECHOSLOVAK FOREIGN TRADE ORGANIZATIONS (FTOS). BELGIAN AMBASSADOR SAID HE HAD BEEN TOLD THAT FOREIGN FIRMS WOULD BE ALLOWED NO DIRECT CONTACT AT ALL WITH CZECHOSLOVAK FIRMS, ONLY THROUGH FTOS. SEVERAL AMBASSADORS THOUGHT NEW OFFICES WERE ONLY TO BE FOR "REPRESENTATION," NOT AS "BRANCH" OR "SALES OFFICES." (GERMAN AMBASSADOR SAID IN CERTAIN SENSE THEY OUGHT TO BE CALLED "NON-OFFICES," AS IN DIPLOMATIC "NON-PAPERS".)

6. AFTER IT WAS REPORTED THAT APPLICATION FORMS ARE NOW BEING DISTRIBUTED, HOST (CANADIAN AMBASSADOR) WENT AROUND ROOM AND ASKED STATUS OF APPLICATIONS. SEVERAL AMBASSADORS (UK, ITALY, GERMANY) SAID SOME OF THEIR FIRMS WERE INTERESTED BUT NO APPLICATION HAD YET BEEN SUBMITTED TO LIMITED OFFICIAL USE

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THEIR KNOWLEDGE. OTHERS (FRENCH, DUTCH) SAID NO FIRM HAD EXPRESSED INTEREST YET TO THEIR KNOWLEDGE.

7. COMMENT: IN OUR VIEW, INITIAL NEGATIVE VIEWS OF AMBASSADORS MAY PROVE UNDULY PESSIMISTIC. DURING INTERVIEW EMBOFFS HAD WITH MINISTRY OF FOREIGN TRADE OFFICIAL RESPONSIBLE FOR ACCEPTING AND PROCESSING APPLICATIONS FOR FOREIGN FIRMS' OFFICES (REFTEL), IT WAS MADE QUITE CLEAR THAT

WHILE ACTUAL SALES CONTRACTS WOULD HAVE TO BE NEGOTIATED THROUGH ESTABLISHED FTOS, THERE WOULD BE FEW CONSTRAINTS PUT ON CONTACTS BETWEEN RESIDENT WESTERN FIRMS AND END-USERS IN THEIR FIELDS OF INTEREST. AS FOR BRITISH AMBASSADOR'S UNHAPPINESS OVER FACT THAT RECENT UK VISITORS TO PRAGUE COULD NOT GET TO SEE SO MANY CZECHOSLOVAKS AS THEY HAD PREVIOUSLY, WE RECALL THAT VISITORS ARRIVED IN PRAGUE ON HEELS OF UK GOVERNMENT ACTION TO SLAP STIFF CONTROLS ON IMPORTS OF CZECH AND SLOVAK READY-MADE WOOLENS. MFT OFFICIAL WAS QUITE EXPLICIT WITH EMBOFFS IN DESCRIBING REQUIREMENT FOREIGN FIRMS WOULD HAVE WHEN SUBMITTING APPLICATION FOR OFFICE SPACE IN DESCRIBING EXACTLY WHAT KIND OF OPERATION THEY INTENDED TO ESTABLISH, I.E., WHETHER "SALES," "SALES AND SERVICE," "SERVICE ONLY", OR MERELY "REPRESENTATION". MOREOVER, FIRM WOULD HAVE TO CLEARLY STATE WHETHER HEAD OF OFFICE WOULD BE EMPOWERED TO SIGN CONTRACTS IN FIRM'S NAME OR NOT. THESE TWO FACTS WOULD APPEAR INCONSISTENT WITH SOME OF THE AMBASSADORS' COMMENTS REPORTED ABOVE. WE SUGGEST THAT AS WITH CZECHOSLOVAKIA'S DECLARED INTENTION TO CARRY OUT COMMITMENTS OF HELSINKI FINAL ACT, IT IS A BIT TOO EARLY TO MAKE FINAL NEGATIVE JUDGMENTS ON NEW DECREE RE OPENING OF FOREIGN FIRMS' OFFICES. INTERESTINGLY, HOWEVER, FIRST QUESTION IBM REPRESENTATIVE ASKED WHEN HE CALLED AT EMBASSY LAST WEEK TO DISCUSS THIS TOPIC WAS: "ARE CZECHS JUST DOING THIS TO COMPLY WITH HELSINKI FINAL ACT, OR ARE THEY REALLY SERIOUS ABOUT IT?"

8 FOR USNATO: GIVEN SOURCES OF COMMENTS IN THIS MESSAGE, EMBASSY REQUESTS THAT THIS CABLE NOT BE SHARED WITH OTHER DELEGATIONS, EXCEPT TO DRAW ON OUR CONCLUSIONS IN GENERAL WAY AND WITHOUT REFERRING TO AN INDIVIDUAL AMBASSADOR'S VIEWS.
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